CLEVELAND PUBLIC
BUSINESS
CORPORA

S. H. KRESS & COMPANY

ANNUAL REPORT

1954

Abilene, Texas

Chattanooga, Tennessee

Orangeburg, South Carolina

S. H. KRESS & COMPANY

BUYING-EXECUTIVE OFFICES

114 FIFTH AVENUE, NEW YORK 11, N. Y.

Directors

S. H. KRESS

R. H. KRESS

C. G. TRAMMELL — H. L. SPENCER

H. S. BOWERS — C. L. ABRY

O. V. W. HAWKINS — C. M. FUNK

Officers

S. H. KRESS
Chairman of the Board

R. H. KRESS
Vice Chairman of the Board

C. G. TRAMMELL
President

R. F. GARRITSON
Vice President

C. L. ABRY
Vice President

W. B. SUTHERLAND*
Vice President

C. M. FUNK
Vice President and Treasurer

O. V. W. HAWKINS
Vice President and Secretary

W. M. WEAVER
Assistant Treasurer

A. F. GUERBER
Assistant Secretary

L. K. GUILER
Assistant Treasurer

C. H. WILLIAMSON
Assistant Secretary

D. C. WELLS
Controller

C. M. SKADE
Assistant Controller

* Elected in 1955

General Counsel: DUER, STRONG & WHITEHEAD, New York, N. Y.

Transfer Agent: BANKERS TRUST COMPANY, New York, N. Y.

Registrar: CHEMICAL CORN EXCHANGE BANK, New York, N. Y.

OPERATIONS AT A GLANCE

		Amount 1954	*Cents Per Dollar 1954*	*1953*
SALES TO CUSTOMERS		$169,416,847	99.6	99.6
RENTAL OF PROPERTY, INTEREST, ETC.		628,910	.4	.4
Total amount received		$170,045,757	100.0	100.0
DEDUCT:				
Merchandise, rent and operating expenses other than taxes, wages and salaries and employe benefits		$114,702,507	67.5	67.3
Taxes paid to Federal, state, county and municipal governments (not including taxes paid by the Company for employe Social Security benefits)		12,116,915	7.1	7.4
Wages and salaries and other employe benefits paid to or provided for:				
All employes other than officers	$32,174,174			
Officers	500,755			
Social Security taxes	893,854			
Retirement pension, group life insurance contributions, and miscellaneous benefits	1,000,275			
Excess of market value at date of sale over selling price of common stock sold to officers and employes	311,060			
Total		34,880,118	20.5	20.1
Dividends paid to stockholders		7,090,772	4.2	4.1
Total amount distributed		$168,790,312	99.3	98.9
BALANCE:				
Earnings retained for use in the business		$ 1,255,445	.7	1.1

S. H. KRESS & COMPANY

February 1, 1955

To the Stockholders of S. H. Kress & Company:

THE ANNUAL REPORT of S. H. Kress & Company covering operations for the year ended December 31, 1954, is submitted herewith. It includes comparative statements of earnings and financial condition, certified by Price Waterhouse & Co., independent public accountants appointed by the Board of Directors.

A simplified statement of operations for 1954 and a Ten Year Comparative Record of Sales, Earnings, and Dividends are included on pages 2 and 11, respectively.

Sales

Sales for 1954 totaled $169,416,847, which is 2.1% less than in the preceding year. The decline in sales was due principally to lower prices and to the loss of sales volume at 17 stores while they were being enlarged and modernized during the year.

Average sales per store for the 264 stores in operation at the year-end were $641,730 as compared with $660,228 in 1953.

Earnings

After deducting Federal taxes on income, the net earnings for the year amounted to $8,346,217 or $3.51 on each of the 2,375,834 shares of common stock outstanding at December 31, 1954.

Earnings for 1954 were reduced by a charge of $311,060, representing the difference of $12.87½ per share between market value and the price at which common stock was sold to officers and employes, as more fully explained later in this letter. After taxes, this charge amounted to 6.3¢ per share of common stock outstanding on December 31, 1954.

In 1953 earnings amounted to $9,026,294 or $3.84 on each of the 2,351,674 shares of common stock outstanding at December 31, 1953.

Dividends

During 1954 the Company paid dividends totaling $3.00 per share of common stock. Dividends of the same amount were paid in 1953.

Wages and Salaries

In 1954 wages and salaries paid to all employes, including officers and directors, amounted to $32,674,929.

Special payments at end of year to other than executive employes again included the Christmas Bonus and Length of Service Compensation payments which amounted to $551,533 as compared with $519,496 for the previous year.

The Company's share of Social Security taxes paid for the benefit of employes in 1954 amounted to $893,854, an increase of $52,486 or 6.2% over previous year. The increase is due entirely to the increase in the rate of Old Age Benefits tax which became effective January 1, 1954. There will be a further increase in this item of expense in 1955 due to the increase in the amount of earnings subject to Old Age Benefits tax recently authorized by Congress.

The Company also contributed $892,072 for maintenance of the Employes' Retirement Pension Plan and in the payment of premiums on policies of life insurance on the lives of its employes. Every employe with the required length of service is eligible to participate in these plans.

Total amount of wages, salaries and other employe benefits for 1954 was $34,880,118 or 20.5¢ of each sales dollar.

Taxes

Federal income taxes on earnings for 1954 amounted to $9,100,000 compared with $9,880,000 in 1953. During 1954 all direct taxes paid by the Company, including Social Security taxes, amounted to $13,010,769 or $5.48 per share of common stock, as compared with net earnings of $3.51 per share after taxes. Total taxes paid by the Company amounted to 7.7¢ on each dollar of sales for the year.

The Company also collected and remitted to the various Federal, state and municipal taxing authorities, excise and sales taxes amounting to $5,633,190.

Inventory

Inventories of merchandise on hand and in transit at the end of the year amounted to $30,117,437, a decrease of $1,152,231 or 3.7% in comparison with previous year. As in prior years, inventories were valued at average cost or at market, whichever is lower, and were computed by the retail inventory method.

New Stores—Future Expansion

On December 31, 1954 the Company had 264 stores in operation, two more than at the end of the previous year. The following work was completed during the year:

3 New stores were opened in Abilene, Texas, Orangeburg, S. C., cities in which the Company had not previously operated stores, and in Chattanooga, Tenn., to replace an existing store.

17 Stores were enlarged or modernized.

2 Stores were converted to self-service, making a total of 3 self-service stores in operation at the end of the year.

Expenditures for expansion and modernization in 1954 amounted to $5,823,030.

The following work is scheduled for 1955:

2 New and enlarged stores to be constructed to replace existing stores.

32 Stores to be enlarged or modernized.

Extensive research has been applied to the type and arrangement of selling fixtures and displays to meet changes in merchandising which have occurred in recent years. As a result substantial improvements were made in display and selling facilities installed in new stores and in the stores which were enlarged and modernized during 1954. Experience gained during 1954 and prior years in the development of display and selling facilities will be utilized and further improved in stores to be constructed and modernized in 1955.

Considerable time and study is also being given to the self-service type of operation to determine if additional units can be converted with mutual benefit to customers and to the Company.

Shareholders

On December 31, 1954 there were 10,035 registered shareholders of the common stock of the Company, an increase of 861 in the number

of shareholders compared with the previous year. Owners of common stock at the end of the year included 1,136 employes of the Company.

Personnel

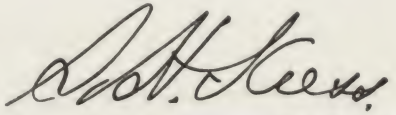
The Board of Directors and officers recognize that the loyalty and the wholehearted cooperation of employes were important factors in bringing about the results accomplished in 1954. The strong working association and team work among all employes of the Company continues to be the most important source of strength and progress.

Evidence of the loyalty and spirit of Kress employes is found in the increasing number of employes with long service records. At the end of the year 310 employes had completed 25 years or more of service and 1,478 employes had been associated with the Company for 10 or more years. In appreciation of their contributions to the success of the Company, appropriate recognition was made of the 62 employes who completed 25 years of service in 1954.

To encourage employe ownership of the common stock of the Company a new employe stock purchase plan was approved by the stockholders at the 1953 annual meeting and the first offering under this plan was made to key employes in 1954. In accordance with the provisions of the plan, stock was sold to employes at $36.75 per share as compared with the market value of $49.62½ per share at the time the offering was made. No offering is contemplated for 1955. Future offerings, as provided in the plan, will be made at the discretion of the Board of Directors.

Suppliers

The management of our Company wishes to acknowledge the loyal support and cooperation received from suppliers in 1954. The fact that Kress stores are known for outstanding values and high standards of quality is largely attributable to the fine cooperation received from suppliers for many years. All merchandise sold in Kress stores is manufactured to meet rigid specifications. The standard and quality of merchandise sold in our stores will continue to be the first consideration of the management.



CHAIRMAN

S. H. KRESS & COMPANY

Statement of Earnings

	Year Ended December 31, 1954	*1953*
SALES	$169,416,847	$172,979,646
Rental received from tenants	522,482	525,405
Interest received, etc. (net)	106,428	142,820
	170,045,757	173,647,871
Deduct:		
Cost of merchandise sold and operating expenses	148,997,359	151,629,947
Depreciation and amortization	2,471,447	2,334,557
Employes' retirement pension plans	819,674	777,073
Excess of market value at date of sale over selling price of common stock sold to officers and employes	311,060	—
	152,599,540	154,741,577
EARNINGS BEFORE FEDERAL TAXES ON INCOME	17,446,217	18,906,294
Deduct:		
Federal taxes on income	9,100,000	9,880,000
NET EARNINGS	8,346,217	9,026,294
Deduct:		
Dividends paid ($3.00 per share)	7,090,772	7,055,022
EARNINGS FOR THE YEAR RETAINED FOR USE IN THE BUSINESS	$ 1,255,445	$ 1,971,272

S. H. KRESS & COMPANY

ASSETS	December 31, 1954	1953
CURRENT ASSETS:		
Cash	$ 14,800,712	$ 15,078,685
U. S. Government securities, at amortized cost (market value December 31, 1954 $8,024,552)	8,025,138	8,112,475
Sundry debtors	57,630	169,890
Inventories of merchandise, including merchandise in transit, at lower of average cost or market	30,117,437	31,269,668
Total current assets	53,000,917	54,630,718
OTHER ASSETS:		
Loans and advances to landlords and miscellaneous notes receivable	302,566	381,090
Prepaid insurance premiums, rents, etc.	448,314	539,966
Total other assets	750,880	921,056
CAPITAL ASSETS:		
Fixtures and equipment, at cost	24,477,294	22,609,204
Less–Provision for depreciation	15,559,915	14,939,563
	8,917,379	7,669,641
Leasehold improvements, at cost	24,078,951	22,716,632
Less–Provision for amortization	11,665,620	11,200,888
	12,413,331	11,515,744
Land and buildings owned in fee, at cost in cash and capital stock	57,251,344	54,900,872
Less–Provision for depreciation	15,694,611	14,717,226
	41,556,733	40,183,646
Total capital assets	62,887,443	59,369,031
	$116,639,240	$114,920,805

Statement of Financial Condition

LIABILITIES	December 31, 1954	1953
CURRENT LIABILITIES:		
Accounts payable – trade creditors and merchandise in transit	$ 2,734,201	$ 2,598,730
Accrued salaries and expenses, and miscellaneous accounts payable	6,842,850	6,967,342
Federal taxes on income	9,456,625	10,203,554
Total current liabilities	19,033,676	19,769,626
CAPITAL:		
Capital stock:		
Special preferred stock – 6% cumulative–		
Authorized – 1,000,000 shares of $10 each		
All issued shares reacquired for treasury		
Common stock without par value–		
Authorized–2,678,787 shares, including 125,840 shares reserved for sale to employes		
Issued–2,381,734 shares (1953–2,357,574 shares)	49,710,193	48,511,253
Accumulated earnings retained for use in the business	48,013,888	46,758,443
Less–Cost of 5,900 shares of common stock reacquired	118,517	118,517
	47,895,371	46,639,926
Total capital stock and accumulated earnings	97,605,564	95,151,179
	$116,639,240	$114,920,805

NOTE: At December 31, 1954 the Company was obligated under 138 leases expiring after December 31, 1957 some of which require, in addition to the minimum rentals now being paid, payments of additional rentals based on sales, and payments of real estate taxes, maintenance and insurance. The aggregate amount charged against operations for the year 1954 under all leases was $3,032,607.

ACCOUNTANTS' REPORT

PRICE WATERHOUSE & CO.

56 PINE STREET
NEW YORK 5

February 1, 1955

To the Stockholders of S. H. Kress & Company:

We have examined the statement of financial condition of S. H. Kress & Company as of December 31, 1954 and the related statement of earnings for the year then ended. Our examination was made in accordance with generally accepted auditing standards, and accordingly included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

In our opinion, the accompanying financial statements present fairly the financial position of S. H. Kress & Company at December 31, 1954, and the results of its operations for the year then ended, in conformity with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

Price Waterhouse & Co.

Ten Year Comparative Record

OF SALES, EARNINGS, AND DIVIDENDS

Year	*No. of Stores*	*Sales*	*Earnings Before Federal Taxes on Income*	*Federal Taxes on Income*	*Net Earnings After Federal Taxes on Income*	*Net Earnings Per Share of Common Stock*	*Dividends Paid Per Share of Common Stock*
1945	244	$126,038,945	$16,687,280	$11,675,000	$ 5,012,280	$2.13	$1.60
1946	242	150,926,508	20,785,531	8,000,000	12,785,531	5.44	4.20
1947	243	155,359,900	20,572,077	7,900,000	12,672,077	5.39	3.50
1948	250	165,366,617	20,638,578	7,800,000	12,838,578	5.46	4.25
1949	256	163,923,437	16,148,204	6,100,000	10,048,204	4.27	3.00
1950	259	161,657,149	20,946,641(a)	8,900,000	12,046,641(a)	5.12(a)	3.00
1951	259	172,390,827	20,111,936(b)	10,100,000	10,011,936(b)	4.26(b)	3.00
1952	261	176,241,576	19,090,842	9,950,000	9,140,842	3.89	3.00
1953	262	172,979,646	18,906,294	9,880,000	9,026,294	3.84	3.00
1954	264	169,416,847	17,446,217	9,100,000	8,346,217	3.51	3.00

(a) Includes restoration of excess provision for Federal taxes on income for prior years amounting to $700,000 or 30¢ per share.

(b) Includes restoration of depreciation taken in prior years, less Federal taxes, amounting to $675,171 or 29¢ per share.

KRESS STORES

ALABAMA (13)
- Anniston
- Bessemer
- Birmingham
- Dothan
- Ensley
- Gadsden
- Huntsville
- Mobile
- Montgomery
- No. Birmingham
- Prichard
- Selma
- Tuscaloosa

ARIZONA (5)
- Douglas
- Nogales
- Phoenix
- Tucson
- Yuma

ARKANSAS (6)
- Blytheville
- Fort Smith
- Helena
- Hot Springs
- Little Rock
- Pine Bluff

CALIFORNIA (44)
- Alhambra
- Anaheim
- Bakersfield
- Berkeley
- Calexico
- El Centro
- Eureka
- Fresno
- Glendale
- Hollywood
- Huntington Park
- Inglewood
- Long Beach
- Los Angeles (11)
- Modesto
- Oakland
- Pasadena
- Pomona
- Richmond
- Riverside
- Sacramento
- Salinas
- San Bernardino
- San Diego
- San Fernando
- San Francisco (2)
- San Jose
- San Pedro
- Santa Ana
- Santa Barbara
- Santa Monica
- Santa Rosa
- Stockton

COLORADO (7)
- Boulder
- Colorado Springs
- Denver
- Grand Junction
- Greeley
- Pueblo
- Trinidad

FLORIDA (14)
- Daytona Beach
- Jacksonville (2)
- Key West
- Lakeland
- Miami
- Miami Beach
- Orlando
- Pensacola
- St. Petersburg
- Sarasota
- Tampa
- West Palm Beach
- Ybor City

GEORGIA (14)
- Albany
- Americus
- Athens
- Atlanta (2)
- Augusta
- Brunswick
- Columbus
- La Grange
- Macon
- Rome
- Savannah
- Valdosta
- Waycross

HAWAII (4)
- Hilo
- Honolulu
- Lihue
- Wailuku

IDAHO (3)
- Boise
- Idaho Falls
- Pocatello

ILLINOIS (2)
- Cairo
- Rockford

KANSAS (13)
- Arkansas City
- Chanute
- Coffeyville
- Emporia
- Fort Scott
- Hutchinson
- Independence
- Iola
- Lawrence
- Parsons
- Pittsburg
- Salina
- Wichita

KENTUCKY (3)
- Ashland
- Hopkinsville
- Winchester

LOUISIANA (6)
- Alexandria
- Baton Rouge
- Lake Charles
- Monroe
- New Orleans
- Shreveport

MISSISSIPPI (9)
- Biloxi
- Greenville
- Hattiesburg
- Jackson (2)
- Laurel
- Meridian
- Natchez
- Vicksburg

MISSOURI (6)
- Carthage
- Jefferson City
- Moberly
- Nevada
- Trenton
- Webb City

MONTANA (2)
- Billings
- Great Falls

NEW JERSEY (2)
- East Orange
- Summit

NEW MEXICO (2)
- Albuquerque
- Roswell

NEW YORK (4)
- New York City (4)

NORTH CAROLINA (14)
- Asheville
- Charlotte
- Durham
- Fayetteville
- Gastonia
- Goldsboro
- Greensboro
- High Point
- New Bern
- Raleigh
- Rocky Mount
- Salisbury
- Wilmington
- Winston-Salem

OHIO (1)
- Youngstown

OKLAHOMA (15)
- Ardmore
- Bartlesville
- Blackwell
- Chickasha
- Enid
- Guthrie
- Lawton
- McAlester
- Muskogee
- Oklahoma City
- Okmulgee
- Ponca City
- Sapulpa
- Shawnee
- Tulsa

OREGON (2)
- Portland
- Salem

PENNSYLVANIA (1)
- Altoona

SOUTH CAROLINA (9)
- Anderson
- Charleston
- Columbia
- Florence
- Greenville
- Greenwood
- Orangeburg
- Spartanburg
- Sumter

TENNESSEE (10)
- Bristol
- Chattanooga
- Elizabethton
- Jackson
- Johnson City
- Kingsport
- Knoxville
- Memphis
- Nashville (2)

TEXAS (37)
- Abilene
- Amarillo
- Austin
- Baytown
- Beaumont
- Brownsville
- Corpus Christi
- Corsicana
- Dallas (2)
- Del Rio
- Denison
- Eagle Pass
- El Paso
- Fort Worth
- Gainesville
- Galveston
- Greenville
- Harlingen
- Hillsboro
- Houston (3)
- Laredo
- Longview
- Lubbock
- Paris
- Port Arthur
- San Angelo
- San Antonio (2)
- Sherman
- Texarkana
- Tyler
- Waco
- Waxahachie
- Wichita Falls

UTAH (3)
- Ogden
- Provo
- Salt Lake City

VIRGINIA (1)
- Roanoke

WASHINGTON (12)
- Aberdeen
- Bellingham
- Bremerton
- Everett
- Seattle (4)
- Spokane
- Tacoma
- Wenatchee
- Yakima

Total—264 Stores in 29 States and the Territory of Hawaii

Chattanooga, Tennessee

KRESS